MARKETWRAP

December 2018

At a glance

Global stocks in December staged their worst monthly performance in more than six years after tighter US monetary policy, tensions between China and the US, key resignations from the US administration, and political uncertainty in France and the UK fanned doubts about the global economic outlook. A decline in the Australian dollar reduced losses for those who have unhedged investments in global equities. During the month, all 11 sectors fell in US-dollar terms. Energy (-9.7%) and financials (-9.1%) fell most while utilities (-2.2%) fell least. The Morgan Stanley Capital International (MSCI) World Index slumped 7.6% in US dollars, its worst performance since May 2012, and lost 4.2% in Australian currency.

Australia

Australian stocks tumbled for a fourth consecutive month as a decline in home prices and bank lending darkened the outlook of an economy that slowed more than expected over the September quarter. A report showed the economy only expanded 0.3% in the quarter, its slowest pace in two years, due to declines in mining investment and a slowing in consumer spending. Analysis out in December showed Australian home prices have fallen the most since the global financial crisis – and even worse for Sydney where a 10.1% decline from their peak in 2017 surpassed their 9.6% decline in the 1980s. Other analysis shows nationwide prices have fallen more than 5%. As data from APRA showed new bank lending fell 7.4% in the third quarter, the bank overseer removed the 30% cap on new interest-only mortgages by banks. As expected, the RBA's policy-setting board kept the cash rate at 1.5% which it has sat since August 2016. In other economic news, the jobless rate rose to 5.1% in November from 5.0% previously. The Federal Government said it was on track to deliver a budget surplus in 2019-20, which would be the first such achievement since the global financial crisis. For fiscal year 2018-19, Canberra said the budget deficit is likely to more than halve from May's forecast to A$5.2 billion. The S&P 200 Accumulation Index lost 0.1%, to be down 2.8% for 2018.

US

US stocks staged their biggest decline in more than nine years as political uncertainty intensified and the Federal Reserve disappointed those who hoped the central bank would end its rate increases when it delivered an expected increase in December. Concerns about the stability of the administration of President Trump swelled after Defence Secretary James Mattis quit over Trump's decision to pull US troops from Syria. They rose further when an impasse with Congress about paying for a wall along the Mexican border led to a partial government shutdown, and Trump reportedly looked into sacking Jerome Powell, his appointee as Fed chairman, for raising US rates too fast. In December, the Fed raised the US cash rate by 25 basis points from 2.25% to 2.5%, the fourth rate increase of 2018 and the ninth rate increase since the global financial crisis. Investors were disappointed that the Fed only reduced its forecast for rate increases in 2019 from three to two – some were hoping for none. The US ended 2018 with the jobless rate at a 49-year low of 3.7% and inflation largely contained to about 2% on key barometers. The S&P 500 Index slumped 9.0%, its worst result since February 2009, as Microsoft ended the year as the world's most valuable company. Over 2018, the index lost 6.2%, its worst performance since 2008.

Europe

European stocks fell for the fourth month in five as political concerns in France and the UK grew and the risk of a recession in the eurozone rose after Germany's economy contracted in the September quarter. In France, judged a source of renewed European integration since centrist Emmanuel Macron won presidential elections last year, Macron's credibility was dented after he buckled to the widespread demands of yellow vest protesters, whose original gripe was against an increase in the tax on petrol and diesel for environmental reasons. In the UK, the government of Theresa May postponed a parliamentary vote on Brexit from December 11 until mid-January, heightening talk the UK will depart from the EU without any agreement. Even though concerns grew that the eurozone economy is stalling, the European Central Bank said it would end its net asset buying by year end. Reports showed the eurozone economy only expanded 0.2% in the third quarter, as Germany's economy contracted the same amount. The Euro Stoxx 50 Index dropped 5.4% in December, to give a decline of 14.3% for 2018.

Asia and emerging markets

Japanese stocks tumbled as hopes faded the US and China would patch their differences on trade. Chinese stocks fell as the trade dispute with the US and a crackdown on shadow lending intensified doubts about the economic outlook. Reports in December showed retail sales in November grew at their slowest pace in 15 years, factory output slid towards a three-year low and the official purchasing manager's index for December fell to a lower-than-expected 49.4, where 50 divides expansion from contraction. Emerging markets overall slid on the gloomy global outlook. Japan's Nikkei 225 Index lost 10.4% in December, and 12.1% over 2018. China's CSI 300 Index shed 5.1% in December, taking its yearly loss to 25.3%. The MSCI Emerging Markets Index sagged 2.9% in US dollars in December, to be down 16.6% for 2018.

Movement in benchmark indices are in local currency unless stated otherwise. As is common practice, all indices mentioned are price indices apart from the MSCI indices and the S&P 200 Accumulation Index.

Sources: J.P. Morgan, FactSet, The Financial Times, Bloomberg and national statistical including the Australian Bureau of Statistics, Eurostat, the US Department of Commerce and the US Department of Labor.

FINANCIAL WISDOM